Nov. 27, 2006

Utilities and Energy Efficiency: The Fifth Fuel
Tuesday, November 28, 2006
Radisson Plaza Hotel, Lexington
Ted Schultz remarks

I am honored to be joined here by so many distinguished speakers and attendees at this conference. The state of Kentucky is one of the nation's leaders in advancing energy efficiency programs, enabled by the forward-thinking Kentucky Public Service Commission. Our intent today is to build on these efforts to grow our existing programs, and come up with some new ideas to use energy more wisely.

- I am particularly honored and excited that Kentucky's governor Ernie Fletcher will be speaking to us in just a few minutes about his views on energy efficiency.

- Clearly there is a commitment at the top of state government that energy efficiency is a priority and that more can be done. Thank you, Governor Fletcher for being with us today. We look forward to hearing your thoughts.

- A few months ago, I was named as Duke Energy's vice president for energy efficiency – a new department at Duke Energy devoted to advancing energy efficiency, what we at Duke Energy call our fifth fuel.

- We call energy efficiency our fifth fuel because we put it on equal terms with our coal, nuclear, natural gas and renewable power plants in meeting our customers' growing demand for power.

Energy efficiency is not a new concept, but market conditions are driving the need for energy efficiency to be treated as an important part of our nation's energy plans going forward. Let me talk a little about these market conditions.

- First, customer demand for energy is growing. The Department of Energy estimates a 50% increase in demand for electricity by 2030. Customers live in larger and more technologically-advanced homes. Personal computers are "always on" and a plasma TV uses 6 times the power of a rear-projection model.

- At Duke Energy, we are adding about 60,000 new customers each year with demand growing at 1 ½-2% annually. Needless to say, energy efficiency is a fundamental component of our overall strategy to meet the demands of our high-tech economy for reliable, reasonably-priced energy.

- Second, across the nation, we are experiencing increases in energy prices. We've all felt the pressure at the pump, but we are seeing double digit price increases for electricity in most of the country. Some areas coming out of deregulation price

stabilization plans are seeing as much as 80% increases. Energy efficiency helps customers control how much energy they use in this rising price environment.

- A third market condition is the need to address environmental issues. We have come a long way in improving our environment on virtually every front – but the consensus is that more can and must be done to improve our air and water quality.

- As our CEO Jim Rogers has made clear in recent years, utilities must move ahead and address Climate Change in a way that achieves meaningful results – and does not damage our national economy or regional economies that are dependent on coal generation. Energy efficiency is fundamental to our ability to achieve this goal.

- A final market condition worth noting is the advances in technology. Smart meters and two-way communication between the utility and the customer will make energy efficiency more cost effective to administer and more practical to implement, in addition to operational benefits.

- Think about the energy efficiency programs of the 80's -- Simply change the temperature of your thermostat, hot water heater and refrigerator a few degrees to save energy. Ah, remember the days of ice cold tile floors in the morning, cold

showers and warm beer!!! Needless to say, these programs were not sustainable. With technology, customers will be able to keep the comforts they have become accustomed to while operating their home much more efficiently.

Market conditions are driving us to treat energy efficiency as a fifth fuel, but the regulatory environment presents a significant barrier to realizing this vision.

- Utilities are uniquely positioned to include energy efficiency in their generation portfolio. They also have the customer relationships, back-office systems and knowledge to grow these efforts and cost effectively use third parties to implement regional programs.

- Most regulatory environments reward utilities for selling more of their product, not less. New regulatory compacts must be implemented to treat investments in energy efficiency the same as investments in new power plants.

- Through forward-thinking rate-making, the Kentucky Public Service Commission has addressed this head on. The commission has approved “riders” or special rate treatment for energy efficiency programs to facilitate implementation now.

- We need to continue to investigate long-term solutions that leave utilities indifferent to investments in generation assets or

energy efficiency. This type of regulatory environment across the country will enable utilities to expand their partnership with customers and provide the incentives shareholders need to expand these efforts.

Let me talk about the progress we have already made in Kentucky. We recently filed an update on our energy efficiency efforts with the Kentucky Public Service Commission in late September. I must say, it is an impressive document with exciting content – and demonstrates what is possible with energy efficiency. Most importantly, it helps set an example for other states to follow as we as a nation refocus our efforts on energy efficiency.

- Our energy efficiency programs have been developed working with a diverse group of people in what we call a "collaborative."

- At Duke Energy, my department is working hand-in-hand with Sandra Meyer, President of Duke Energy Kentucky, and her staff to collaborate with customers, non-profit organizations, environmental groups, regulators and other stakeholders to design the most effective energy efficiency programs for the people of Kentucky. For those of you who do not know Sandra, she is a great leader with a strong focus on providing value to our customers.

- Through this collaborative, we have developed an array of programs to broaden our energy conservation education efforts and provide real value to our customers.

- These programs have been a true partnership between Duke Energy and our 130,000 Kentucky customers.

- This reduced power demand is significant – over 12,800 Mwhrs which represents enough power to serve the annual energy use for over 1,000 homes.
  (could say alternatively: - over 24 MW which represents enough capacity to serve over 7,000 homes).

Kentucky has set a great example for the nation to follow in energy efficiency. We look forward to growing these efforts and are excited about what the future will hold as we move forward.